

Message Text

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SUBJECT: PROPOSAL FOR SAUDI MUTUAL FUND

1. DURING FEB 17 MEETING WITH SAUDI MIN STATE FOR FINANCIAL AFFAIRS ABA AL KHAIL IN RIYADH, UNDER SECRETARY ROBINSON EXPLORED SAUDI INTEREST IN CREATING MUTUAL FUND AS MEANS OF CHANNELING SOME OF KINGDOM'S INVESTMENT FUNDS INTO US. WE RECOGNIZED RIGHT OF SURPLUS COUNTRIES TO MAKE DECISIONS ON WHERE TO INVEST THEIR FINANCIAL RESOURCES. AT SAME TIME, WE WERE INTERESTED IN SEEING THAT THESE INVESTMENTS CONTRIBUTE TO A STRENGTHENED FREE WORLD FINANCIAL STRUCTURE IN WHICH WE HAVE A MUTUAL INTEREST. WITH BANKS REACHING THEIR LIMITS ON AMOUNTS OF SHORT TERM HOLDINGS THEY CAN TAKE, POINT HAD NOW BEEN REACHED WHERE WE HAVE TO TRANSFER THESE SURPLUSES INTO REAL ASSETS, INTO EQUITY AND LONG TERM OBLIGATIONS.

2. WITH RAPID BUILD UP IN OPEC FUNDS, CONCERNS HAVE INCREASED IN CONSUMER COUNTRIES OVER POTENTIAL DISRUPTIVE IMPACT AS REAL ASSETS BEGIN TO BE ACQUIRED BY OPEC COUNTRIES. IN US, THIS HAS BECOME AN EMOTIONAL ISSUE AND NUMBER OF BILLS HAVE BEEN SUBMITTED IN CONGRESS WHICH IF IMPLEMENTED COULD DISCOURAGE FOREIGN INVESTMENT. WHILE UNDER SECRETARY EMPHASIZED ADMINISTRATION IS OPPOSED TO ARBITRARY AND CAPRICIOUS RESTRICTIONS AGAINST INVESTMENT FLOWS FROM ABROAD, IT HAD TO RECOGNIZE THAT THESE CONCERNS

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EXIST. FOR ITS PART, AND TO HEAD OFF POTENTIALLY DAMAGING

LEGISLATION, ADMINISTRATION CURRENTLY HAS STUDY UNDERWAY TO DEFINE MORE CLEARLY WHAT USG POLICY WILL BE TOWARD FOREIGN INVESTMENT.

3. UNDER SECRETARY POINTED OUT THAT ONE APPROACH SAUDIS MIGHT CONSIDER TO HELP DISPEL EXAGGERATED FEARS OVER OPEC INVESTMENT WOULD BE TO ESTABLISH A MUTUAL FUND FOR INVESTMENT IN PROFESSIONALLY SELECTED AND BROAD PORTFOLIO OF US INDUSTRIAL EQUITY SHARES AND OTHER PRIVATE SECURITIES. FUND WOULD BE UNDER SAUDI CONTROL BUT WOULD OPERATE UNDER CERTAIN GUIDELINES INCLUDING INDICATIONS OF EQUITY CEILINGS THAT COULD BE HELD IN ANY SINGLE CORPORATION AND AREAS WHERE FOREIGN INVESTMENT WAS CONSIDERED SENSITIVE. THE FUND'S SAUDI DIRECTORS COULD BE SUPPLEMENTED BY A FEW INTERNATIONAL EXPERTS WHO WOULD ASSIST IN DEVELOPING THE FUND'S PORTFOLIO.

4. WHILE MUTUAL FUND WAS ONLY ONE OF SEVERAL WAYS SAUDIS COULD CHANNEL SURPLUS FUNDS, UNDER SECRETARY NOTED THAT WE BELIEVED IT COULD GO A LONG WAY TOWARD DEMONSTRATING TO AMERICAN PUBLIC AND CONGRESS THAT SAUDI ARABIA IS FOLLOWING RESPONSIBLE INVESTMENT POLICY AND THAT INSTITUTION OF THIS KIND IS OF MUTUAL BENEFIT. BY REDUCING PRESENT EMOTIONALISM OVER OPEC INVESTMENT, FUND WOULD ALSO SERVE TO INCREASE SECURITY OF INVESTMENT FOR OPEC COUNTRIES. ALTHOUGH FUND COULD BEGIN WITH INVESTMENTS IN US, IT COULD LATER EXPAND TO INCLUDE INVESTMENTS IN OTHER DEVELOPED AND LESS DEVELOPED CONSUMER COUNTRIES AND COULD EVENTUALLY BE BROADENED TO INCLUDE PARTICIPATION BY OTHER OPEC COUNTRIES.

5. ABA AL KHAIL'S INITIAL REACTION WAS CAUTIOUS BUT POSITIVE. HE WAS FAMILIAR WITH ROOSA PLAN AND SAID HE INTENDED TO DISCUSS IT FURTHER. HE SAID PRESENT SAUDI POLICY ON USE OF SURPLUS FOREIGN EXCHANGE COULD BE BROKEN DOWN INTO THREE CHANNELS. FIRST INVOLVES ECONOMIC ASSISTANCE SAUDIS PROVIDE TO OTHER COUNTRIES AND WHAT SAUDIS EARMARK FOR LOCAL INSTITUTIONS (SUCH AS SAUDI DEVELOPMENT FUND) TO PROVIDE CONCESSIONAL AID TO LDCS. SECOND RELATES TO SAUDI INVESTMENTS IN INTERNATIONAL INSTITUTIONS SUCH AS IMF BORROWINGS FOR OIL FACILITY, IBRD SECURITIES, AND REGIONAL INSTITUTIONS (ISLAMIC BANK, ARAB DEVELOPMENT FUND). THIRD CHANNEL HAS BEEN SAUDI MONETARY AGENCY
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PLACEMENTS ABROAD. MOST OF LATTER HAS BEEN WITH US BANKING INSTITUTIONS IN EUROPE BUT AS RELATIONS WITH TREASURY AND FEDERAL RESERVE HAVE INCREASED, SAUDI INVESTMENT IN USG SECURITIES HAVE GROWN AND THERE HAVE BEEN PURCHASE OF SOME U.S. EQUITIES. HE SAID THAT A GOOD PART OF SAMA'S HOLDINGS ARE NOW IN MEDIUM TERM HOLDINGS AND THAT SAG SEEKING TO BUILD UP STRONG RELATIONS WITH US BANKS TO HELP MONETARY AGENCY DEVELOP A PORTFOLIO. ABA AL KHAIL THOUGHT THAT ANNOUNCEMENT OF USG INVESTMENT POLICY

WILL HELP A GREAT DEAL TO CLEAR THE AIR AND THAT HE WOULD LIKE TO HEAR MORE ABOUT MUTUAL FUND IDEA WHEN HE COMES TO WASHINGTON FOR JOINT COMMISSION MEETING NEXT WEEK.

6. COMMENT: WHILE MUTUAL FUND CONCEPT PROBABLY SHOULD BEST BE DISCUSSED OUTSIDE OF JOINT COMMISSION CONTEXT, BELIEVE WE HAVE PLANTED IDEA WITH SAUDIS AND THAT THEY EXPECT US TO FOLLOW UP WHEN WE HAVE MORE SPECIFIC DETAILS TO OFFER THEM ON HOW FUND MIGHT BE ORGANIZED AND OPERATED. IN DISCUSSING CONCEPT, IT SEEMED CLEAR THAT SAUDIS WOULD WANT TO KEEP ANY MUTUAL FUND UNDER THEIR OWN CONTROL. WHILE ABA AL KHAIL FELT NATURE OF PRESENT SAUDI INVESTMENT SIMILAR TO THAT WHICH MIGHT BE MADE BY A MUTUAL FUND, HE APPEARED TO RECOGNIZE IMPORTANCE OF PSYCHOLOGICAL GESTURES TO SHOW INDUSTRIALIZED COUNTRIES THAT SAUDIS AND OTHER CAPITAL SURPLUS COUNTRIES SEEK TO ACT IN RESPONSIBLE MANNER AND THAT THIS GESTURE IN TURN WILL SERVE TO INCREASE SECURITY OF THEIR FOREIGN INVESTMENTS.
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